House of Commons

Business, Energy and Industrial Strategy Committee

Oral evidence: Fraudulent company registrations: Economic Crime and Corporate Transparency Bill, HC 862

Tuesday 8 November 2022

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Watch the meeting

Members present: Darren Jones (Chair); Bim Afolami; Ruth Edwards; Andy McDonald; Charlotte Nichols; Mark Pawsey.

Questions 64 - 81

Witnesses

III: Martin Swain, Director of Policy, Strategy, External Communications and Legal, Companies House.

Examination of witness

Witness: Martin Swain.

Chair: We are now moving on to panel 3, which is on the screen. We should be welcoming Martin Swain, who is the director of policy, strategy, external communications and legal—a very busy job—at Companies House.

Martin, good morning. You were with us, so hopefully you heard the evidence from the previous panels and you know our areas of interest.

Q64 **Andy McDonald:** One of the previous witnesses, Nick Van Benschoten from UK Finance, told the Public Bill Committee two weeks ago that the question for Companies House reform was, "Does it go far enough and will it be implemented quickly enough?" How would you respond to those questions?

Martin Swain: From our perspective, it is worth saying that these are the biggest reforms to Companies House since we were established. They are a major change to our organisation. I have heard this morning and in previous committees and debates about areas where there is concern that it does not go far enough. In some respects it is a matter for the Department and Ministers as to whether they believe it goes far enough or not. We believe, as Companies House, the additional powers in the Bill will allow us to address many of the issues that have been raised this morning and in debates.

In terms of the pace that we can do this, there are a number of factors. The question of resources has come up in every debate and every committee I have taken part in. That is an important factor. Some of these changes will require us to do some significant systems development. We are doing this through our transformation programme, but we are again constrained by a number of factors there. Resources is one of those, but the availability of people with digital skills is also really crucial for us.

On past practice, Companies House has a good record of delivering things at pace. If I give you the example of the first economic crime Act and the new register of overseas entities, we delivered the first iteration of that register within three months of the law coming in. It is not perfect, but it is operational. We have a good track record as an agency of delivering at pace.

I personally feel the reforms are a good package of reform. We have worked really closely with the Department over the last three years, when we originally consulted and throughout the process. I doubt it will address everything people want it to address, but it is a significant package of reform that will give us the tools we need.

Q65 **Andy McDonald:** It is a major shake-up of activity at Companies House. I am curious about a couple of things. If we get everything we want out of this, what would success look like? What would the outcomes be? You could perhaps summarise those for me. How would that change day-to-day activity in Companies House? What would change? What would be different?

Martin Swain: I will deal with the outcomes first. I am fairly clear that the strategic objectives that are in the Bill for the registrar are our guiding principles. They are about the integrity of the register. For me, the outcomes we want to achieve are that people have trust and confidence in the register in the first place, and that we can minimise and eliminate abuse.

I heard the evidence this morning about individuals being targeted. That is not where we want to be as an agency. We want to be able to help people who are subject to that behaviour and help them quickly. We also want to prevent it in the first place, building systems and capabilities to stop these things at source, so that these companies are not being created and people are not having their identities stolen.

From my perspective, one of my responsibilities is communications in Companies House. I would love to see, in three or four years' time, us not getting the negative press coverage that we get and not being thought of as—I will use the phrase somebody used earlier—a facilitator of fraud. That is not where we want to be as an agency. We want to be a preventer of fraud. That is where we see our place—as central to that economic crime ecosystem and playing a much more proactive and harder role in that system.

In terms of how it will change our day-to-day, as somebody mentioned earlier, we get termed as a passive register. That will be the biggest change for us: becoming a much more regulatory type of organisation. It will require people to have different skills. It will require people to operate differently. We have quite a lot of people doing processing work at the moment. We will move a lot of people off that kind of work into judgment-based, interrogative work where we are trying to identify where there are threats to the integrity of the register.

Our people will probably have different skills. They will have more enriched roles. We definitely will be a much more outward-facing organisation in terms of our role with law enforcement and that economic crime system. I spend quite a bit of my time talking to new partners and people from the NCA, the NECC and the City of London Police about where we see Companies House playing that role in the future. That will spread across the organisation. We will be a very different organisation.

Q66 **Chair:** Martin, what is your annual budget at the moment? How much does Companies House spend every year?

Martin Swain: I could not give you the exact figure. I could provide it, but I believe we spend around £80 million a year. It is probably worth me explaining some of the things around our budget. As has been referred to this morning, the majority of our income comes through fees. We have a small amount of central funding from the Department for some of our activities. Then we have the money we secured for our transformation programme, which is outside of the fees. That is operational funding, which will pay for our transformation programme over five years.

Q67 **Chair:** Have you been able to estimate how much you will need to spend in order to do everything you are being asked to do under the Bill? How will your revenue budget change?

Martin Swain: We are not in that position at this point. We have done some work around specific functions, in particular on the enforcement side of things, which will grow significantly. It is fair to say it depends on the final shape of the legislation and what we are required to do. Even tracking the passage of the Bill now, there are additional things coming into the legislation that will require us to do things slightly differently.

The other thing to say to the Committee is that, alongside legislative reform, our transformation programme is a twin-track programme.

Q68 **Chair:** I will come back to capital costs in a second. I am a bit troubled that you do not know how much you think it will cost to do everything the Government are asking you to do. Presumably, someone somewhere should have done an impact assessment that says, "These are all the extra things Government are asking us to do. This is how we are going to deliver that, and this is how much it is going to cost". You are going to need to ask the Treasury, to start with, to give you some money, are you not?

Martin Swain: We are in discussion with BEIS and Treasury around fees. There is provision in the Bill for us to use fees to fund different things. I do not have that figure in front of me. If I can get it, I can provide you with that.

It is a slightly different situation for Companies House because we are funded through fees. I noted the conversations earlier about the level of fees. In essence, if you put our incorporation fee up from £15 to, say, £50, it creates £35 of extra income per incorporation. In some respects, you can range your activity to the level of income that you are collecting.

Q69 **Chair:** My colleague has kindly pointed out that I have the answer to my own question here in our briefing note, which says that the Department has estimated it will cost £289 million to make the changes required with an annual direct cost on business of £18.9 million.

The thing I am trying to get to with my questions, Mr Swain, is that Companies House, much like lots of other arm's length bodies, is accountable to Parliament predominantly through this Committee. We have to try to understand how you are performing against the requirements you are asked to deliver.

A lot of the time we are told, "We do not have enough money or people to do everything that we are being asked to do". If that is the case in these circumstances, I am keen to make sure we make the point at this stage in the legislative process to the Government that, if they are really committed to these issues, they need to make sure you are adequately resourced to do it.

What I am sensing, though, is that you probably do not know what you are asking for in order to do the job as effectively as possible from day 1.

Martin Swain: Given that you have that figure in your briefing note, we would have been part of those discussions. For me, there is a difference between being able to deliver the basic implementation of the legislation and the scale of increased capacity and capability.

I was interested to hear the gentleman from NatWest say they have a staff of 6,000 people working on anti-fraud measures. We have a workforce of just over 1,000 in the entirety of Companies House. We have 12 million individuals on our register.

There was a conversation earlier about more due diligence on directors and PSCs of companies. The answer is that we could design something to do that. We could design a way of doing it and a process, but that would require huge investment that has not been factored in.

Q70 **Chair:** That was my concern in the question I was asking the banks. The banks said that you should do it and that they already give lots of money to Government in lots of ways. They said that it is your job to verify everybody's identity and the authenticity of all companies, directors, shareholders, if we do them, and everything else. Are you essentially saying that you cannot do that because you have not been given the resources to do it?

Martin Swain: We are implementing ID verification, which is something we do not do at the moment. ID verification will prevent a lot of the abuse of the register that takes place. We will be able to stop it at source. That is what we are doing.

Your earlier panellists were talking about a higher level of diligence checks behind that, which is about the status of a director or a PSC. That is not just checking, "Are you the person who you say you are?", which is the central plank of the Government's reform. It is about knowing who is setting up and running a company. That is the point we are doing.

This is about layering on another level of very detailed due diligence. "Martin Swain, you say you are a director. We have checked your ID, but now we want to go behind that and check whether you hold the shareholding you say you hold". That is a whole other level of diligence, which we have not factored in. Ultimately, we have to deliver the legislative framework the Government set out for us as a delivery agency.

Q71 **Chair:** Just on identity verification, there was some evidence earlier that relying on third parties to do verifications is a risk and that you should probably be doing that in-house. Are you not doing that because of cost? Is that why you are outsourcing it?

Martin Swain: There are two separate points. The way we do what I would call direct verification is something we are working through at the moment. We are highly likely to outsource the actual verification process itself because to try to do that in-house would require a whole set of technology, skills and capabilities that we just would not have.

There are additional things in train that are not in legislation now when we talk about agents. At the moment a company service provider can register a company and, as was mentioned earlier, we accept the information in good faith. That will not be the case in the future because we will be doing additional checks around the agent themselves. We will require them to confirm that verification has happened to the same standard as our direct verification.

We will require a statement that will have confirmation that has happened. We will also require the agents to be AML-supervised and we will check whether that supervision is constantly in place with the supervisory bodies. If we find that supervision ceases for any reason, we can suspend their ability to register. That is all new. That is a level of due diligence around agents that we just do not have at the moment.

Q72 **Chair:** On capital spending, you talked about your digital transformation and the budgets you have been given. If that is not for doing the bells and whistles stuff on identity verification and all of that, what is it for? Is it just updating your data centres and things?

Martin Swain: I am sorry. I probably misrepresented what I was saying. A significant amount of that will be to develop our IDV systems. It is not just about procuring somebody to do the ID verification. We have to integrate that with a lot of our internal systems.

A lot of our systems are on legacy as well. They are coming to the end of their productive life so we need to upgrade them. A lot of our transformation is around digitising and automating transactions. One of the key things for us is that we will not play that central part in tackling economic crime unless we have information coming into us as data. A big part of our transformation is to move on, as much as possible, to data submission to us, so we have data that we can mine, interpret and share with law enforcement agencies.

Some of the transformation funding is also about our people. It is investing in the skills we need for the future. It is building capability within our workforce. There is also a significant amount around the intelligence capability that we have. We are investing quite a lot of money in what we define as our intelligence hub. Again, there are systems behind this. Somebody mentioned in evidence earlier the use of artificial intelligence and machine learning. A big part of our transformation programme is to move us to being able to use that kind of technology.

Q73 **Chair:** How long have the Government given you between the Act coming into force and the date you have to start delivering everything?

Martin Swain: From our perspective, implementation will be phased. Some of it will happen immediately after the Bill gets Royal Assent, where we have the powers in place to do that. Some of it will require secondary legislation, which clearly the Department will have to take through Parliament. We cannot start doing some of it until Royal Assent.

On ID verification, for example, we can do lots of exploratory work around what the systems need to look like and how we would integrate them, but we cannot physically start a procurement process for an external provider until we get Royal Assent. *Managing Public Money* prevents us from doing that.

It will be phased. From my perspective, I am looking at where the greatest risk to the integrity of the register is. That is where we need to focus our attentions early on. ID verification is a big priority for us. The new powers for the registrar are a really important area for us early on in implementation, enabling us to deal with some of the issues that have been raised by other panellists this morning in terms of individual fraud and people having their addresses misused.

We will have different powers in the new legislation. I am really keen, as is my chief executive, who is sorry she cannot be here today to give evidence herself, that we apply those powers as early as possible so we stop abuse of the register.

Q74 **Ruth Edwards:** Martin, I am quite concerned about individuals who find either that their names or addresses have been used for fraudulent purposes for directorships, or that companies have been registered to their name. If somebody finds out this is the case, what should they do about it at the moment?

Martin Swain: This is one of my biggest frustrations. We have to deal with a lot of these cases. Our ability is restricted within the current legislation. One of your earlier witnesses was talking about the processes that people have to go through in terms of submitting the relevant forms to us and completing the process.

Wherever we can, where people are affected by this, we will do our utmost to help them through the process. It is not a blunt, "Here is the form. Fill it in; send it back; and we will deal with it". As much as possible, we try to help these people through the process. It is unfortunate that, as the law is crafted at the moment, we have to go through that.

This is where the kinds of powers coming through the Bill, in the new legislation, will really help. We may be able to stop some of this at source. Where we see suspicious activity on the register by individuals—a name was mentioned earlier, which I will follow up on with the team—we may be able stop it at source. If it does happen, we will be able to remove it far more quickly. We will not have to send people to court to get a court order. That will change in the new legislation. As it is currently constructed, I find the law quite frustrating, particularly when individuals are affected by it.

Q75 **Ruth Edwards:** My understanding is that, at the moment, if somebody approaches you to fill in a form to say that their name or address has been used fraudulently on the Companies House register, the registrar will get in contact with the company in question, which is run by the fraudsters themselves. Is that the case?

Martin Swain: That is what the law requires us to do.

Q76 **Ruth Edwards:** In your view, what does the Bill we are looking at today do to address that issue? Does it address that issue?

Martin Swain: We would not have to do it.

Ruth Edwards: You would not have to do it. In your view, that would fully deal with the current problem.

Martin Swain: If we were satisfied there was fraudulent activity or potentially fraudulent activity, we could remove it from the register without contacting the fraudulent company.

Q77 **Ruth Edwards:** Brilliant, thank you. Do you have a rough ballpark figure of how many people have been affected in this way? How many people have contacted Companies House?

Martin Swain: Somebody mentioned the actual form, RP06, that people have to submit if they are made a director when they are not a director. The last time I checked, we had about 3,000 last year. That is too many, quite frankly. With the new powers, we can stop more of these. I would want to significantly reduce or even eliminate that.

Q78 **Ruth Edwards:** I also understand that, in terms of court orders, the only way to remove an individual of significant control from an individual's address is to obtain a court order. Again, the court wants to speak to the person of significant control, who in this case is, again, a criminal fraudster. What needs to be done to address that? Would that also be sorted out by the same legislation?

Martin Swain: Yes, that will be addressed in the Bill. If somebody is appointed as a person of significant control when they are not and they can provide evidence of that to us, we can take action and remove that appointment. They would not have to go to court.

Q79 **Ruth Edwards:** That is fantastic. Are there any other measures either in the Bill being proposed at the moment or that are not on the table right now that would help you at Companies House prevent people from becoming victims of fraud in this way?

Martin Swain: There are not any that we would identify. This is a comprehensive package of reform. As I say, we have worked really closely with the Department over the last few years. As a delivery agency, we can spot these vulnerabilities. We have been talking to the Department about where we see vulnerabilities on the register for individuals and companies. There is nothing that I would immediately say is missing. It is a very comprehensive package of reform. If we implement it, it will have a significant impact.

Q80 **Ruth Edwards:** You are completely satisfied that the package of reforms on the table at the moment will help to protect those 3,000-odd people a year who present to Companies House as victims of fraud.

Martin Swain: From my conversations with people in the economic crime field, we will never prevent everything. Our aim is to minimise the risk wherever we can. I believe the package we are getting gives us the ability to minimise the risk as much as possible.

I mentioned our conversations with other law enforcement agencies. We are looking to explore how we can extract data from them and overlay it with our own data so we can increase our capability to identify suspicious activity. A lot of this will be around prevention.

It is about spotting that suspicious activity, spotting those agents who should not be filing with us, spotting individuals who have a pattern of filing behaviour that suggests suspicious activity or fraud, and then preventing it.

Q81 **Chair:** Martin, I know you know this, but Companies House is accountable for its performance to Parliament via this Committee. I know there is a lot going on and the Bill is not finished yet, but, when the Bill has finished, I would like to see a more detailed implementation plan so we can see in more detail what it is you have been asked to do; how you are going to deliver it; whether there are any gaps in terms of the financing or resourcing; any of the risks you have identified in terms of that being implemented as quickly as possible; a timeline around the phasing of that implementation; and, as part of ongoing reporting to this committee, whether it is working in practice or whether you have any other problems. It would be useful if we could keep in touch on those issues.

Martin Swain: Yes, that is no problem at all.

Chair: For the purposes of today, we will call this session to an end. Thank you, Martin.